

**COVINGTON INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**- WITH INDEPENDENT AUDITORS' REPORT -**

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
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Independent Auditors' Report

Members of the Board of Education  
Covington Independent School District  
25 East Seventh Street  
Covington, Kentucky 41011

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

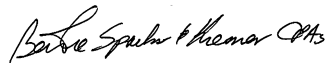
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District, as of June 30, 2012, and the respective changes in financial position, respective budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2012, on our consideration of the Covington Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 7, and Budgetary Comparison Information, on page 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Covington Independent School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements shown are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bertke, Sparks & Kremer, Inc.  
October 30, 2012

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Covington Independent School District (District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$5,179,849.
- A concerted effort remains in place for purchasing in the areas of supplies, food and travel by using effective management strategies to reduce cost for the District. All purchase requests must be budgetary.
- District Staffing Policy is reviewed annually to monitor student reductions and staff per available funding. Any open positions are reviewed to determine if the need is still there to fill the position or restructure the position with another position already in the District.
- The District continues to educate and train the Board of Education in regard to all of the District's budgets.
- The District continues to train the schools' SBDM councils on spending the allocations within the current fiscal year.
- The District continues to strive to maintain a healthy contingency.
- The District has continued to look into ways to invest the District's money until the money is needed. The District opened up a Certificate of Deposit (CD) during the school year. This investment opportunity earned more interest for the District.
- In reviewing attendance data over the past 20 years, our District had been on a steady decline in Average Daily Attendance of between 50 and 100 students per year. This trend has change over the past 3 years. From 2009 to 2012 the enrollment has actually increased each year (80 students in 2010, 55 students in 2011, and 10 students in 2012. Our 2013 current enrollment is also showing an increase from the previous year. This shows a more stable environment for budget purposes.
- The District administered \$1,304,261 in Federal, State and local grants during the year.
- The average teacher's salary in the District for 2012 was \$46,185. The Covington Board of Education remains committed to maintaining teachers' salaries at competitive levels.
- The General Fund had \$37,604,545 in revenue excluding interfund transfers of \$47,343. General Fund revenues primarily consisted of the state program (SEEK), property, franchise tax, motor vehicle taxes, as well as on-behalf benefits from the state. There was \$34,851,776 in General Fund expenditures, excluding interfund transfers and including the on-behalf benefit payments made by the state.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**OVERVIEW OF FINANCIAL STATEMENTS (CONT'D)**

**District-wide financial statements.** The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations and day care operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 31 of this report.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14,888,702 as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (i.e. land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)**

**Net Assets for the periods ending June 30, 2012 and 2011**

The following is a summary of net assets for the fiscal years ended June 30, 2012 and 2011.

	<b>2012</b>	<b>2011</b>
Current assets	\$ 9,051,978	\$ 7,255,655
Noncurrent assets	<u>24,718,440</u>	<u>24,616,713</u>
<b>Total assets</b>	<u><b>\$ 33,770,418</b></u>	<u><b>\$ 31,872,368</b></u>
Current liabilities	\$ 3,154,591	\$ 2,946,502
Noncurrent liabilities	<u>15,727,125</u>	<u>17,132,298</u>
<b>Total liabilities</b>	<u><b>\$ 18,881,716</b></u>	<u><b>\$ 20,078,800</b></u>
<b>Net assets</b>		
Investment in capital assets (net of debt)	\$ 7,346,841	\$ 6,561,719
Committed	6,528,333	3,812,245
Restricted	666,228	1,623,162
Nonspendable	69,423	37,618
Assigned	72,263	88,850
Unassigned	<u>205,614</u>	<u>(330,026)</u>
<b>Total net assets</b>	<u><b>\$ 14,888,702</b></u>	<u><b>\$ 11,793,568</b></u>

**Comments on General Fund Budget Comparisons**

- The District's total revenues in the General Fund for the fiscal year ended June 30, 2012, were \$37,604,545, net of inter-fund transfers, of \$47,343.
- General Fund budgeted revenue compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$6,421,205 more than budget or approximately 17% of General Fund Budget. The majority of this variance is the result of the District recording "on-behalf" payments made by the state.
- General Fund actual expenditures were \$34,851,776, net of inter-fund transfers of \$412,533.
- General Fund actual expenditures were less than budgeted expenditures by \$174,228. This is the result of the District closely monitoring budgetary expenditures.



**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONT'D)**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2012 and 2011.

	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for services	\$ 293,099	\$ 379,080
Operating grants	13,467,456	12,556,863
Capital grants	<u>825,274</u>	<u>732,253</u>
Total grant revenues	<u>14,585,829</u>	<u>13,668,196</u>
General Revenues:		
Property taxes	16,852,182	16,392,362
Grants and entitlements	21,065,192	20,020,007
Earnings on investments	16,931	13,254
Miscellaneous	<u>672,466</u>	<u>1,229,463</u>
Total general revenues	<u>38,606,771</u>	<u>37,655,086</u>
Total revenues	<u>53,192,600</u>	<u>51,323,282</u>
<b>Expenses:</b>		
Instructional	25,348,870	24,350,276
Student support services	3,288,751	2,425,997
Staff support	1,217,627	1,336,603
District administration	1,786,751	1,547,733
School administration	3,605,380	3,375,507
Business support	1,835,793	1,737,917
Plant operations	6,815,800	7,290,129
Student transportation	1,433,856	1,172,818
Central office support	-	-
Facilities acquisition and construction	161,225	265,487
Community service	1,380,819	1,043,751
Food service	2,385,234	2,382,751
Daycare	297,195	295,081
Interest on long-term debt	<u>640,165</u>	<u>431,051</u>
Total expenses	<u>50,197,466</u>	<u>47,655,101</u>
<b>Excess of revenues over expenses</b>	<u><u>\$ 2,995,134</u></u>	<u><u>\$ 3,668,181</u></u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with \$2,498,640 in contingency (7.6%). The cash balance for the beginning of the fiscal year was \$5,179,849.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

Questions regarding this report should be directed to Ms. Lynda Jackson, Superintendent (859) 392-1001 or to her representative Ms. Annette Berner, Director of Financial Services/Finance Officer (859) 392-1016 or by mail to: Covington Board of Education, 25 East 7<sup>th</sup> Street, Covington, KY 41011.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - DISTRICT WIDE  
AS OF JUNE 30, 2012**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 5,558,484	\$ 379,566	\$ 5,938,050
Accounts receivable	2,956,824	87,681	3,044,505
Inventories for consumption	-	69,423	69,423
	<hr/>	<hr/>	<hr/>
Total current	8,515,308	536,670	9,051,978
	<hr/>	<hr/>	<hr/>
<b>NONCURRENT</b>			
Bond issuance cost - net	151,686	-	151,686
Construction in progress	2,901,644	-	2,901,644
Nondepreciated capital assets:			
Land	1,465,705	-	1,465,705
Depreciated capital assets:			
Land improvements	1,040,949	-	1,040,949
Buildings and improvements	36,945,507	-	36,945,507
Furniture and equipment	7,068,933	698,026	7,766,959
Less: accumulated depreciation	(24,867,444)	(686,566)	(25,554,010)
	<hr/>	<hr/>	<hr/>
Total noncurrent	24,706,980	11,460	24,718,440
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 33,222,288</u>	<u>\$ 548,130</u>	<u>\$ 33,770,418</u>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Current portion of bonds payable	\$ 1,488,235	\$ -	\$ 1,488,235
Accounts payable	283,366	-	283,366
Accrued interest	90,521	-	90,521
Accrued sick leave	65,718	-	65,718
Accrued payroll and related expenses	668	-	668
Deferred revenues	1,226,083	-	1,226,083
	<hr/>	<hr/>	<hr/>
Total current	3,154,591	-	3,154,591
	<hr/>	<hr/>	<hr/>
<b>NONCURRENT</b>			
Accrued sick leave	591,464	-	591,464
Bond obligations	15,135,661	-	15,135,661
	<hr/>	<hr/>	<hr/>
Total noncurrent	15,727,125	-	15,727,125
	<hr/>	<hr/>	<hr/>
Total liabilities	<hr/> 18,881,716	<hr/> -	<hr/> 18,881,716
	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,335,381	11,460	7,346,841
Restricted for:			
Capital projects	204,144	-	204,144
Net assets	-	462,084	462,084
Nonspendable	-	69,423	69,423
Assigned	67,100	5,163	72,263
Committed			
Other	6,497,222	-	6,497,222
Site-Based Carryforward	31,111	-	31,111
Unrestricted	205,614	-	205,614
	<hr/>	<hr/>	<hr/>
Total net assets	14,340,572	548,130	14,888,702
	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 33,222,288</u>	<u>\$ 548,130</u>	<u>\$ 33,770,418</u>
	<hr/>	<hr/>	<hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES - DISTRICT WIDE  
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
<b>Governmental Activities:</b>							
Instructional	\$ 25,348,870	\$ 26,517	\$ 8,695,715	\$ -	\$ (16,626,638)	\$ -	\$ (16,626,638)
Student support services	3,288,751	-	487,010	-	(2,801,741)	-	(2,801,741)
Staff support services	1,217,627	-	2,988	-	(1,214,639)	-	(1,214,639)
District administration	1,786,751	-	-	-	(1,786,751)	-	(1,786,751)
School administration	3,605,380	-	169,685	-	(3,435,695)	-	(3,435,695)
Business support services	1,835,793	-	-	-	(1,835,793)	-	(1,835,793)
Plant operation and maintenance	6,815,800	-	148,127	-	(6,667,673)	-	(6,667,673)
Student transportation	1,433,856	-	139,863	-	(1,293,993)	-	(1,293,993)
Food service operation	10,293	-	-	-	(10,293)	-	(10,293)
Community service operations	1,380,819	-	1,380,633	-	(186)	-	(186)
Facility acquisition and construction	161,225	-	-	825,274	664,049	-	664,049
Interest on long-term debt	640,165	-	-	-	(640,165)	-	(640,165)
Total governmental activities	47,525,330	26,517	11,024,021	825,274	(35,649,518)	-	(35,649,518)
<b>Business-type Activities</b>							
Food service	2,374,941	131,674	2,388,762	-	-	145,495	145,495
Daycare	297,195	134,908	54,673	-	-	(107,614)	(107,614)
Total business-type activities	2,672,136	266,582	2,443,435	-	-	37,881	37,881
Total school district	\$ 50,197,466	\$ 293,099	\$ 13,467,456	\$ 825,274	\$ (35,649,518)	\$ 37,881	\$ (35,611,637)
<b>General revenues:</b>							
Taxes					\$ 16,852,182	\$ -	\$ 16,852,182
State aid formula grants					21,065,192	-	21,065,192
Investment earnings					16,428	503	16,931
Proceeds from bonds					-	-	-
Miscellaneous					344,013	-	344,013
Special items:							
Gain on sale of assets					54,420	-	54,420
Fund transfer					(107,614)	107,614	-
Bond payments made by KSFCC					274,033	-	274,033
Total general and special revenues					38,498,654	108,117	38,606,771
Change in net assets					2,849,136	145,998	2,995,134
Net assets - beginning					11,391,436	402,132	11,793,568
Net assets - ending					\$ 14,240,572	\$ 548,130	\$ 14,788,702

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2012**

	<b>GENERAL FUND</b>	<b>SPECIAL REVENUE FUND</b>	<b>CONSTRUCTION FUNDS</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>					
<b>CURRENT</b>					
Cash (overdraft) and cash equivalents	\$ 6,306,330	\$ (1,145,028)	\$ 204,144	\$ 193,038	\$ 5,558,484
Interfund receivable	174,476	-	-	-	174,476
Accounts receivable	389,194	2,555,054	-	12,576	2,956,824
	<u>6,870,000</u>	<u>1,410,026</u>	<u>204,144</u>	<u>205,614</u>	<u>8,689,784</u>
Total current	<u>\$ 6,870,000</u>	<u>\$ 1,410,026</u>	<u>\$ 204,144</u>	<u>\$ 205,614</u>	<u>\$ 8,689,784</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>CURRENT</b>					
Accounts payable	\$ 273,899	\$ 9,467	\$ -	\$ -	\$ 283,366
Accrued payroll and related expenses	668	-	-	-	668
Interfund payable	-	174,476	-	-	174,476
Deferred revenues	-	1,226,083	-	-	1,226,083
	<u>274,567</u>	<u>1,410,026</u>	<u>-</u>	<u>-</u>	<u>1,684,593</u>
Total current	<u>274,567</u>	<u>1,410,026</u>	<u>-</u>	<u>-</u>	<u>1,684,593</u>
<b>FUND BALANCE</b>					
Restricted:					
Capital projects	-	-	204,144	-	204,144
Committed:					
Other	6,497,222	-	-	-	6,497,222
Site-Based carryforward	31,111	-	-	-	31,111
Assigned	67,100	-	-	-	67,100
Unrestricted	-	-	-	205,614	205,614
	<u>6,595,433</u>	<u>-</u>	<u>204,144</u>	<u>205,614</u>	<u>7,005,191</u>
Total fund balance	<u>6,595,433</u>	<u>-</u>	<u>204,144</u>	<u>205,614</u>	<u>7,005,191</u>
Total liabilities and fund balance	<u>\$ 6,870,000</u>	<u>\$ 1,410,026</u>	<u>\$ 204,144</u>	<u>\$ 205,614</u>	<u>\$ 8,689,784</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2012**

Total governmental fund balance		\$ 7,005,191
Unamortized bond issuance costs		151,686
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Construction in process	2,901,644	
Cost of capital assets	46,521,094	
Accumulated depreciation	<u>(24,867,444)</u>	
		24,555,294
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(16,623,896)
Accrued interest on bonds		(90,521)
Accrued sick leave		<u>(657,182)</u>
Total net assets - governmental		<u><u>\$ 14,340,572</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>GENERAL FUND</b>	<b>SPECIAL REVENUE FUND</b>	<b>CONSTRUCTION FUNDS</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
<b>REVENUES:</b>					
Taxes	\$ 15,962,976	\$ -	\$ -	\$ 889,206	\$ 16,852,182
Earnings on investments	16,428	137	-	-	16,565
State sources	20,649,323	2,701,592	-	728,532	24,079,447
Federal sources	415,869	7,710,044	-	96,742	8,222,655
Other sources	370,529	612,248	-	-	982,777
Total revenues	37,415,125	11,024,021	-	1,714,480	50,153,626
<b>EXPENDITURES:</b>					
Instructional	16,626,837	8,953,292	-	-	25,580,129
Student support services	2,716,413	487,010	-	-	3,203,423
Staff support services	1,209,397	2,988	-	-	1,212,385
District administration	1,753,756	-	-	-	1,753,756
School administration	3,419,382	169,685	-	-	3,589,067
Business support services	1,665,660	-	-	-	1,665,660
Plant operation and maintenance	5,802,769	148,127	-	-	5,950,896
Student transportation	1,393,271	139,863	-	-	1,533,134
Central office	-	-	-	-	-
Food service operation	10,293	-	-	-	10,293
Community service operations	-	1,380,633	-	-	1,380,633
Facility acquisition and construction	91,405	-	1,076,335	-	1,167,740
Debt service:					
Principal	46,098	-	-	1,010,967	1,057,065
Interest	124,089	-	-	497,899	621,988
Total expenditures	34,859,370	11,281,598	1,076,335	1,508,866	48,726,169
Excess (deficit) of revenues over expenditures	2,555,755	(257,577)	(1,076,335)	205,614	1,427,457
<b>OTHER FINANCING SOURCES (USES):</b>					
Loan and bond proceeds	-	-	-	-	-
Proceeds from sale of assets	197,015	-	-	-	197,015
Operating transfers in	47,343	304,920	-	-	352,263
Operating transfers out	(412,534)	(47,343)	-	-	(459,877)
Total other financing sources (uses)	(168,176)	257,577	-	-	89,401
Net change in fund balance	2,387,579	-	(1,076,335)	205,614	1,516,858
Fund balance, July 1, 2011	4,207,854	-	1,280,479	-	5,488,333
Fund balance, June 30, 2012	\$ 6,595,433	\$ -	\$ 204,144	\$ 205,614	\$ 7,005,191

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Amounts reported for governmental activities in the statement of net assets are different because:

Net changes-governmental funds		\$ 1,516,858
Proceeds from sale of bonds	-	
Underwriter discount on bond sale	-	
Capitalized bond costs	-	
	<hr/>	-
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Depreciation expense	(1,582,934)	
Construction in progress	(1,082,692)	
Capital outlays	2,934,331	
Retirement of capital assets	(142,595)	
	<hr/>	126,110
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Principal paid		1,331,098
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
		<hr/> (124,930)
Changes in net assets of governmental activities		<u><u>\$ 2,849,136</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)



**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b>REVENUES:</b>				
Taxes	\$ 15,721,287	\$ 15,721,287	\$ 15,962,976	\$ 241,689
Other local sources	450,270	450,270	386,956	(63,314)
State sources	13,103,472	14,617,626	20,649,323	6,031,697
Federal sources	420,000	420,000	415,869	(4,131)
Other sources	21,500	21,500	244,358	222,858
Total revenues	<u>29,716,529</u>	<u>31,230,683</u>	<u>37,659,482</u>	<u>6,428,799</u>
<b>EXPENDITURES:</b>				
Instructional	13,654,554	13,598,887	16,626,837	(3,027,950)
Student support services	2,308,852	2,323,182	2,716,413	(393,231)
Staff support services	1,091,869	1,054,100	1,209,397	(155,297)
District administration	2,053,174	3,747,763	1,753,756	1,994,007
School administration	2,753,054	2,761,659	3,419,382	(657,723)
Business support services	1,646,183	1,608,423	1,665,660	(57,237)
Plant operation and maintenance	5,629,975	5,967,584	5,802,769	164,815
Student transportation	1,062,951	1,111,835	1,393,271	(281,436)
Central office	-	-	-	-
Food service operation	19,300	19,300	10,293	9,007
Community service operations	-	-	-	-
Facility acquisition and construction	181,423	89,726	91,405	(1,679)
Other	3,115,194	3,156,078	582,720	2,573,358
Total expenditures	<u>33,516,529</u>	<u>35,438,537</u>	<u>35,271,903</u>	<u>166,634</u>
Net change in fund balance	(3,800,000)	(4,207,854)	2,387,579	6,595,433
Fund balance, July 1, 2011	<u>3,800,000</u>	<u>4,207,854</u>	<u>4,207,854</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,595,433</u>	<u>\$ 6,595,433</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
AS OF JUNE 30, 2012**

	<b>FOOD SERVICE</b>	<b>OTHER ENTERPRISE FUNDS</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash (overdraft) and cash equivalents	\$ 380,790	\$ (1,224)	\$ 379,566
Accounts receivable	86,457	1,224	87,681
Inventories for consumption	69,423	-	69,423
	<u>536,670</u>	<u>-</u>	<u>536,670</u>
Total current			
<b>NONCURRENT</b>			
Furniture and fixtures	698,026	-	698,026
Less: accumulated depreciation	(686,566)	-	(686,566)
	<u>11,460</u>	<u>-</u>	<u>11,460</u>
Total noncurrent			
Total assets	<u><u>\$ 548,130</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 548,130</u></u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>
Total current			
<b>NET ASSETS</b>			
Invested in assets, net of debt	11,460	-	11,460
Nonspendable - inventories	69,423	-	69,423
Assigned			
Purchase obligations	5,163	-	5,163
Restricted			
Net assets	<u>462,084</u>	<u>-</u>	<u>462,084</u>
Total net assets	<u>548,130</u>	<u>-</u>	<u>548,130</u>
Total liabilities and net assets	<u><u>\$ 548,130</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 548,130</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>FOOD SERVICE</b>	<b>OTHER ENTERPRISE FUNDS</b>	<b>TOTAL</b>
<b>OPERATING REVENUES:</b>			
Lunchroom sales	\$ 131,674	\$ -	\$ 131,674
Other operating revenues	-	134,908	134,908
	<hr/>	<hr/>	<hr/>
Total operating revenues	131,674	134,908	266,582
	<hr/>	<hr/>	<hr/>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	1,289,866	280,074	1,569,940
Contract services	66,591	572	67,163
Materials and supplies	1,003,877	16,524	1,020,401
Depreciation	13,121	-	13,121
Other operating expenses	1,486	25	1,511
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,374,941	297,195	2,672,136
	<hr/>	<hr/>	<hr/>
Operating loss	(2,243,267)	(162,287)	(2,405,554)
	<hr/>	<hr/>	<hr/>
<b>NONOPERATING REVENUES:</b>			
Federal grants	2,090,875	-	2,090,875
State grants	182,276	54,673	236,949
Donated commodities and other donations	115,611	-	115,611
Transfers	-	107,614	107,614
Loss on disposal of capital assets	-	-	-
Interest income	503	-	503
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues	2,389,265	162,287	2,551,552
	<hr/>	<hr/>	<hr/>
Net income	145,998	-	145,998
	<hr/>	<hr/>	<hr/>
Total net assets, July 1, 2011	402,132	-	402,132
	<hr/>	<hr/>	<hr/>
Total net assets, June 30, 2012	\$ 548,130	\$ -	\$ 548,130
	<hr/>	<hr/>	<hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>FOOD SERVICE FUND</b>	<b>OTHER ENTERPRISE FUNDS</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from lunchroom sales	\$ 131,674	\$ -	\$ 131,674
Cash received from other activities	-	135,580	135,580
Cash payments to employees for services	(1,289,866)	(280,074)	(1,569,940)
Cash payments to suppliers for goods and services	(1,103,759)	(17,121)	(1,120,880)
Net cash used in operating activities	(2,261,951)	(161,615)	(2,423,566)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>			
Purchase of capital assets	(3,200)	-	(3,200)
Net cash used in capital financing activities	(3,200)	-	(3,200)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Non-operating revenues received	2,365,851	162,287	2,528,138
Net cash provided by noncapital financing activities	2,365,851	162,287	2,528,138
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	503	-	503
Net cash flows provided by investing activities	503	-	503
Net increase (decrease) in cash and cash equivalents	101,203	672	101,875
Cash (overdraft) and cash equivalents - beginning	279,587	(1,896)	277,691
Cash (overdraft) and cash equivalents - ending	<u>\$ 380,790</u>	<u>\$ (1,224)</u>	<u>\$ 379,566</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Operating loss	\$ (2,243,267)	\$ (162,287)	\$ (2,405,554)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Depreciation	13,121	-	13,121
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	672	672
(Increase) decrease in inventories	(31,805)	-	(31,805)
Net cash used in operating activities	<u>\$ (2,261,951)</u>	<u>\$ (161,615)</u>	<u>\$ (2,423,566)</u>
<b>SCHEDULE OF NON-CASH TRANSACTIONS:</b>			
Donated commodities received from federal government	<u>\$ 115,611</u>	<u>\$ -</u>	<u>\$ 115,611</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Covington Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Covington Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Covington Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Covington Independent School District Finance Corporation - The Board authorized the establishment of the Covington Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Covington Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

**I. Governmental Fund Types**

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on pages 41. This is a major fund of the District.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

I. Governmental Fund Types (cont'd)

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Basis of Presentation (cont'd)

IV. Fiduciary Fund Type (Agency and Trust Funds) (cont'd)

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.



**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars, with the exception of computers, digital cameras and real property, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Capital Assets (cont'd)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Fund Balance Reserves

Beginning with fiscal year 2011 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B - ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C - CASH AND CASH EQUIVALENTS**

At year end, the District had on deposit cash and cash equivalents totaling \$8,087,606. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Bank of Kentucky	\$ 8,087,606	\$ 6,254,796
Total	<u>\$ 8,087,606</u>	<u>\$ 6,254,796</u>

Allocation per financial statements:

Governmental funds	\$ 5,558,484
Proprietary funds	379,566
Activity funds	<u>316,746</u>
	<u>\$ 6,254,796</u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE D - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 1,465,705	\$ -	\$ -	\$ 1,465,705
Land improvements	1,040,949	-	-	1,040,949
Buildings and improvements	34,856,300	2,089,207	-	36,945,507
Technology equipment	4,190,735	691,645	2,056,375	2,826,005
Vehicles	2,063,866	148,211	40,492	2,171,585
General equipment	2,558,576	5,268	492,501	2,071,343
Totals at historical cost	46,176,131	2,934,331	2,589,368	46,521,094
Less: accumulated depreciation				
Land improvements	948,893	16,421	-	965,314
Buildings and improvements	18,193,732	887,440	-	19,081,172
Technology equipment	2,996,664	554,489	1,918,848	1,632,305
Vehicles	1,367,065	87,085	40,492	1,413,658
General equipment	2,224,929	37,499	487,433	1,774,995
Total accumulated depreciation	25,731,283	1,582,934	2,446,773	24,867,444
Governmental activities capital assets - net	<u>\$ 20,444,848</u>	<u>\$ 1,351,397</u>	<u>\$ 142,595</u>	<u>\$ 21,653,650</u>
<u>Business - Type Activities</u>				
General equipment	\$ 689,826	\$ -	\$ -	\$ 689,826
Technology equipment	8,705	3,200	3,705	8,200
Totals at historical cost	698,531	3,200	3,705	698,026
Less: accumulated depreciation				
General equipment	668,445	12,588	-	681,033
Technology equipment	8,705	533	3,705	5,533
Total accumulated depreciation	677,150	13,121	3,705	686,566
Business - type activities capital assets - net	<u>\$ 21,381</u>	<u>\$ (9,921)</u>	<u>\$ -</u>	<u>\$ 11,460</u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE E - ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012 this amount totaled approximately \$657,182 for those employees with twenty-seven or more years of experience.

**NOTE F - LEASE OBLIGATIONS AND BONDED DEBT**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
August 2, 2001	\$ 315,000	3.00% - 5.200%
December 1, 2001	\$ 66,726	3.50% - 4.700%
November 1, 2002	\$ 4,240,000	3.45% - 3.600%
January 1, 2004	\$ 71,476	1.00% - 3.500%
January 1, 2005	\$ 545,000	3.350%
January 1, 2005	\$ 126,934	3.00% - 3.625%
April 1, 2007	\$ 4,255,000	3.60% - 3.800%
May 1, 2008	\$ 1,030,000	3.10% - 4.000%
May 1, 2008	\$ 3,760,000	2.60% - 3.300%
January 1, 2009	\$ 83,609	2.00% - 3.900%
June 1, 2009	\$ 1,255,000	2.15% - 4.500%
April 1, 2010	\$ 2,275,000	1.50% - 5.700%
December 1, 2010	\$ 3,000,000	1.21% - 6.120%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Covington Independent School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note O sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are reported in Note O.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE G - RETIREMENT PLANS**

Kentucky Teachers Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing, multiple-employer retirement system created by and maintained by Kentucky legislature. KTRS provides retirement, death and disability benefits to Plan members.

Plan members are required to contribute 10.355% of their annual creditable compensation. Members hired on or after July 1, 2008 pay an additional .5% of their salary to the medical insurance fund. Matching contributions are made by the state in the form of on behalf payments. The district is required to remit matching contributions on those school district employees whose salaries are paid by federally programs. This federal matching rate is 13.605% for employees hired before July 1, 2008 and 14.105% for employees hired after July 1, 2008. The contribution requirement for KTRS for the year ended June 30, 2012 was \$2,767,394, which consisted of \$593,963 from the District and \$2,173,431 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$2,519,280 and \$2,537,675, respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2012, was \$1,911,819, which consisted of \$1,508,323 from the District and \$403,496 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$1,327,296 and \$1,688,892 respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

The District's total payroll for the year was \$28,772,727. The payroll for employees covered under KTRS was \$20,714,102 and for CERS was \$8,842,053.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE H - CONTINGENCIES**

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

**NOTE I - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

**NOTE J - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE K - DEFICIT OPERATING/FUND BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

Construction Fund	\$ 1,076,335
Holmes High School	\$ 13,527
Ninth District Elementary School	\$ 2,166
Covington Adult High School	\$ 532
Glenn O. Swing Elementary School	\$ 495



**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE L - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

**NOTE M - TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
2	1	Indirect Cost	\$ 47,343
1	2	Matching	\$ 304,920
1	50	Operating	\$ 107,614

**NOTE N - ON-BEHALF PAYMENTS**

For the year ended June 30, 2012 total payments of \$6,221,029 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded as revenues and expenses in the following funds:

General Fund	\$ 6,027,843
Food Service Fund	158,753
Other Enterprise Fund	34,433
	<hr/>
Total	\$ 6,221,029
	<hr/>

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE O - SCHEDULE OF LONG-TERM OBLIGATIONS**

**2001K, 2002R, 2007, 2008R, 2009, 2010 and Bus Loans**

FISCAL YEAR	COVINGTON INDEPENDENT SCHOOL DISTRICT			KY SCHOOL FACILITIES CONSTRUCTION COMMISSION			TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	
2012-2013	\$ 1,201,607	\$ 386,356	\$ 1,587,963	\$ 286,628	\$ 199,290	\$ 485,918	\$ 2,073,881
2013-2014	1,235,873	346,136	1,582,009	272,668	191,173	463,841	2,045,850
2014-2015	1,268,494	306,375	1,574,869	276,714	182,622	459,336	2,034,205
2015-2016	1,225,928	265,449	1,491,377	285,897	173,437	459,334	1,950,711
2016-2017	1,244,616	225,376	1,469,992	298,032	163,476	461,508	1,931,500
2017-2018	1,267,938	183,634	1,451,572	308,327	152,780	461,107	1,912,679
2018-2019	1,312,222	140,520	1,452,742	281,948	141,208	423,156	1,875,898
2019-2020	347,586	92,553	440,139	234,418	129,945	364,363	804,502
2020-2021	340,789	81,714	422,503	244,211	120,153	364,364	786,867
2021-2022	250,075	70,032	320,107	254,925	109,439	364,364	684,471
2022-2023	258,910	62,854	321,764	266,090	98,274	364,364	686,128
2023-2024	266,813	55,187	322,000	278,187	86,177	364,364	686,364
2024-2025	278,880	47,300	326,180	291,120	73,245	364,365	690,545
2025-2026	283,867	39,038	322,905	286,133	60,238	346,371	669,276
2026-2027	258,597	30,484	289,081	231,403	47,920	279,323	568,404
2027-2028	265,729	22,532	288,261	239,271	36,309	275,580	563,841
2028-2029	259,432	14,420	273,852	180,568	24,248	204,816	478,668
2029-2030	226,109	6,706	232,815	113,891	14,379	128,270	361,085
2030-2031	79,134	559	79,693	120,866	7,403	128,269	207,962
	<u>\$ 11,872,599</u>	<u>\$ 2,377,225</u>	<u>\$ 14,249,824</u>	<u>\$ 4,751,297</u>	<u>\$ 2,011,716</u>	<u>\$ 6,763,013</u>	<u>\$ 21,012,837</u>

**NOTE P - SUBSEQUENT EVENTS**

Subsequent events were considered through November 15, 2012, which represents the release date of our report.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2012**

	<b>CAPITAL OUTLAY FUND</b>	<b>BUILDING FUND</b>	<b>TOTAL NON-MAJOR GOVERNMENT FUNDS</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ -	\$ 193,038	\$ 193,038
Accounts receivable	-	12,576	12,576
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total current	<u>\$ -</u>	<u>\$ 205,614</u>	<u>\$ 205,614</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ -	\$ -
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total current	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCES</b>			
Restricted:			
Capital projects fund	-	-	-
Prior year encumbrances	-	-	-
Debt service fund	-	-	-
Unrestricted	-	205,614	205,614
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	-	205,614	205,614
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 205,614</u>	<u>\$ 205,614</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>CAPITAL OUTLAY FUND</b>	<b>BUILDING FUND</b>	<b>TOTAL NONMAJOR GOVERNMENT FUNDS</b>
<b>REVENUES:</b>			
Taxes	\$ -	\$ 889,206	\$ 889,206
Earnings on investments	-	-	-
State sources	327,644	400,888	728,532
Federal sources	96,742	-	96,742
Other sources	-	-	-
Total revenues	<u>424,386</u>	<u>1,290,094</u>	<u>1,714,480</u>
<b>EXPENDITURES:</b>			
Instructional	-	-	-
Student support services	-	-	-
Staff support services	-	-	-
District administration	-	-	-
School administration	-	-	-
Business support services	-	-	-
Plant operation and maintenance	-	-	-
Student transportation	-	-	-
Central office	-	-	-
Food service	-	-	-
Community service operations	-	-	-
Facility acquisition and construction	-	-	-
Debt service:			
Principal	100,000	910,967	1,010,967
Interest	324,386	173,513	497,899
Total expenditures	<u>424,386</u>	<u>1,084,480</u>	<u>1,508,866</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>205,614</u>	<u>205,614</u>
<b>OTHER FINANCING SOURCES(USES):</b>			
Proceeds from sale of bonds	-	-	-
Proceeds from sale of assets	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	205,614	205,614
Fund balance, July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2012	<u>\$ -</u>	<u>\$ 205,614</u>	<u>\$ 205,614</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
BOND AND INTEREST REDEMPTION FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>SLIP/KISTA 2001</b>	<b>ISSUE OF 2002R</b>	<b>ISSUE OF 2007</b>	<b>ISSUE OF 2008R</b>	<b>ISSUE OF 2009</b>
<b>Cash at July 1, 2011</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Receipts:</b>					
Transfers and miscellaneous deposits	18,915	810,372	152,743	209,302	24,399
<b>Disbursements:</b>					
Bonds paid	5,000	755,318	22,330	112,242	16,077
Interest coupons	13,915	55,054	130,413	97,060	8,322
Transfers and miscellaneous	-	-	-	-	-
Call fee	-	-	-	-	-
Total disbursements	18,915	810,372	152,743	209,302	24,399
Excess of receipts over disbursements	-	-	-	-	-
<b>Cash at June 30, 2012</b>	-	-	-	-	-
<b>Accounts Receivable and Payable</b>					
Matured interest and bonds outstanding	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-
<b>Fund Balance at June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>ISSUE OF 2010</b>	<b>ISSUE OF 2010B</b>	<b>Total</b>
<b>Cash at July 1, 2011</b>	\$ -	\$ -	\$ -
<b>Receipts:</b>			
Transfers and miscellaneous deposits	202,907	90,228	1,508,866
<b>Disbursements:</b>			
Bonds paid	100,000	-	1,010,967
Interest coupons	102,907	90,228	497,899
Transfers and miscellaneous	-	-	-
Call fee	-	-	-
Total disbursements	202,907	90,228	1,508,866
Excess of receipts over disbursements	-	-	-
<b>Cash at June 30, 2012</b>	-	-	-
<b>Accounts Receivable and Payable</b>			
Matured interest and bonds outstanding	-	-	-
Due from other funds	-	-	-
Due to other funds	-	-	-
Total accounts receivable and payable	-	-	-
<b>Fund Balance at June 30, 2012</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
HOLMES HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>FUND BALANCE JULY 1, 2011</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>	<b>FUND BALANCE JUNE 30, 2012</b>
A P book fund	\$ 2,233	\$ -	\$ -	\$ 2,233
A P softdrink fund	865	-	-	865
A P teacher fund	400	-	-	400
Academic all stars	520	-	70	450
Advanced placement	2,617	342	-	2,959
Alumni fund	4,121	190	508	3,803
Annual	4,111	3,071	6,981	201
Athletic deposits	3,947	25,686	27,622	2,011
Athletic expenses	55	27,855	27,910	-
Athletics	1,701	2,863	405	4,159
Auto body VICA	1,636	250	756	1,130
Auto mechanics VICA	428	65	-	493
Baseball fundraiser	1,583	40	303	1,320
Basketball fundraiser	3,009	1,218	1,813	2,414
Bulldog leadership	24,100	2,335	6,885	19,550
C. Meyer scholarship	110	-	110	-
Carpentry VICA	410	66	-	476
CAS account	743	-	-	743
Chapman principal	3,464	4,295	6,169	1,590
Chapman shop	30	-	-	30
Cheerleaders - senior	538	971	1,434	75
Cheerleaders 8/9/JV	-	891	772	119
Chemistry	156	-	-	156
Chess club	153	-	-	153
Child care development center	239	49	126	162
Class of 1997	2,255	-	-	2,255
Class of 1999	239	-	-	239
Class of 2000	654	-	-	654
Class of 2001	203	-	203	-
Class of 2002	273	-	-	273
Class of 2003	2,381	-	-	2,381
Class of 2004	1,913	-	-	1,913
Class of 2005	696	-	-	696
Class of 2006	283	-	-	283
Class of 2007	868	-	-	868
Class of 2008	661	-	-	661
Class of 2010	129	-	-	129
Class of 2011	16	62	-	78
Class of 2012	-	3,076	3,076	-
Class of 2013	-	6,351	6,274	77
Class of 2014	-	253	173	80
Clinton Harvey	8,986	-	1,000	7,986
Crimsonettes	7	-	-	7
Cross country fundraiser	3,437	1,692	638	4,491

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
HOLMES HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>FUND BALANCE JULY 1, 2011</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>	<b>FUND BALANCE JUNE 30, 2012</b>
Don Conrad family scholarship	\$ 13,746	\$ 80,000	\$ 71,246	\$ 22,500
Eighth Grade Boys Basketball	-	680	680	-
Eighth Grade Girls Basketball	-	2,876	2,525	351
Faculty lounge Sr.	1,069	814	1,124	759
FCCLA	1,291	-	-	1,291
FGB fundraiser	12	-	-	12
Fine arts enrichment	1,036	100	586	550
Flower fund	350	400	400	350
FMD Jr. memorials	65	-	65	-
Football fundraiser	1,438	-	1,438	-
French club	761	-	-	761
Future business	119	319	435	3
G & R Reed scholarship	4,465	-	1,000	3,465
Gear up summer	13	-	-	13
General fund	15,257	15,471	24,031	6,697
Gifted and talented	26	-	-	26
Girls' soccer fundraiser	1,031	-	754	277
GTN fundraiser	792	-	-	792
Hall of distinction	152	-	-	152
Heisel, DR medallion	4,606	-	-	4,606
HMS postage	899	-	-	899
Holmes alternative	1,204	-	493	711
Holmes broadcasting	463	220	40	643
Holmes marching band	1,527	3,065	3,358	1,234
Holmespun	124	-	-	124
Honor Society - Sr.	55	30	85	-
Horizons	512	-	-	512
Industrial electrical VICA	235	65	-	300
Janet Clark	100	-	100	-
John R Sheshull Fine	53	-	-	53
Key fob	80	20	-	100
Library	752	192	312	632
Lift-a-Thon	36	-	11	25
Lockers - Sr.	1,079	-	932	147
Marine Corp adm	7,364	3,044	5,123	5,285
Masonry VICA	131	-	131	-
Math club	509	-	-	509
Math dept calculators	73	-	-	73
Mitchell, H & S scholarship	9,184	500	500	9,184
NAACP	36	-	-	36
National Art Honor	2	-	-	2
Needy student fund	617	-	40	577
Petty cash	50	-	-	50
R&J Sargent scholarship	1,000	2,000	1,000	2,000

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
HOLMES HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>FUND BALANCE JULY 1, 2011</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>	<b>FUND BALANCE JUNE 30, 2012</b>
Records office	\$ 362	\$ 1,200	\$ 794	\$ 768
Rex's choir	10,401	673	2,902	8,172
Roth-Morgan scholarship	3,110	-	500	2,610
Save the Nordheim	100	-	-	100
Seventh Grade Boys Basketball	-	611	611	-
Sixth Grade Boys Basketball	-	863	863	-
Sixth Grade Girls Basketball	-	684	684	-
Skills USA executive	550	5,797	5,770	577
Softball fast fundraiser	2,381	3,073	1,801	3,653
Softball slow pitch	661	-	-	661
Spanish club	234	-	-	234
Student behavior mod	888	2,419	771	2,536
Student council	3,112	-	-	3,112
Students in transition	-	500	486	14
Student tech leader	355	-	-	355
Supply store	8,889	16,493	8,586	16,796
Swimming fundraiser	814	30	96	748
Teacher incentive	947	1,339	1,937	349
Tech lab	28	-	-	28
Textbooks	13,782	11,166	7,615	17,333
TLC-Service Learning	1,606	550	929	1,227
Track fundraiser	409	402	701	110
Tudor scholarship	11,326	-	1,600	9,726
V. Chapman scholarship	13	487	500	-
Varsity club	11,296	1,629	5,562	7,363
Vogt family scholarship	-	1,000	1,000	-
Volleyball fundraiser	756	-	-	756
Washington DC	-	9,654	9,654	-
Welding	63	530	490	103
Wrestling fundraiser	316	540	713	143
Youth service center	2,436	-	367	2,069
Youth strings	137	-	-	137
YSC Sr. welfare	1,463	307	322	1,448
YSC tobacco education	711	-	-	711
Total	<u>\$ 229,630</u>	<u>\$ 251,364</u>	<u>\$ 264,891</u>	<u>\$ 216,103</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)



**COVINGTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>COVINGTON ADULT HIGH SCHOOL</b>	<b>HOLMES MIDDLE SCHOOL</b>	<b>SIXTH DISTRICT ELEMENTARY SCHOOL</b>	<b>NINTH DISTRICT ELEMENTARY SCHOOL</b>	<b>JOHN G. CARLISLE ELEMENTARY SCHOOL</b>
Fund balances at July 1, 2011	\$ 1,646	\$ 14,034	\$ 15,929	\$ 15,152	\$ 7,848
Add: receipts	2	19,483	15,011	15,580	39,971
Less: disbursements	<u>(534)</u>	<u>(17,479)</u>	<u>(11,662)</u>	<u>(17,746)</u>	<u>(35,564)</u>
Fund balances at June 30, 2012	<u><u>\$ 1,114</u></u>	<u><u>\$ 16,038</u></u>	<u><u>\$ 19,278</u></u>	<u><u>\$ 12,986</u></u>	<u><u>\$ 12,255</u></u>

	<b>GLENN O. SWING ELEMENTARY SCHOOL</b>	<b>LATONIA ELEMENTARY SCHOOL</b>	<b>JAMES E. BIGGS EARLY CHILDHOOD EDUCATION CENTER</b>	<b>TOTAL</b>
Fund balances at July 1, 2011	\$ 10,513	\$ 18,248	\$ 3,224	\$ 86,594
Add: receipts	9,709	35,017	8,583	143,356
Less: disbursements	<u>(10,204)</u>	<u>(28,459)</u>	<u>(7,659)</u>	<u>(129,307)</u>
Fund balances at June 30, 2012	<u><u>\$ 10,018</u></u>	<u><u>\$ 24,806</u></u>	<u><u>\$ 4,148</u></u>	<u><u>\$ 100,643</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>CFDA NUMBER</b>	<b>PASS- THROUGH GRANTOR'S NUMBER</b>	<b>EXPENDITURES</b>	<b>PROGRAM/ CLUSTER TOTALS</b>
<b>U.S. DEPARTMENT OF ENERGY</b>				
<i>Passed through the Kentucky School Board Association</i>				
State Energy Program - Recovery Act	81.041	1000001115	\$ 29,877	\$ 29,877
<b>Total U.S. Department of Energy</b>			<u>29,877</u>	<u>29,877</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Mentoring Children of Prisoners	93.616	N/A	<u>111,370</u>	111,370
<i>Passed through the Kentucky Department of Education:</i>				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2000001 11	<u>100</u>	<u>100</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>111,470</u>	<u>111,470</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Fund for the Improvement of Education	84.215	N/A	<u>670,500</u>	670,500
Safe and Drug-Free Schools and Communities - National Program	84.184	N/A	<u>461,503</u>	461,503
<i>Passed through the Kentucky Department of Education:</i>				
Twenty-First Century Community Learning Centers	84.287	3400002 09	339,313	
Twenty-First Century Community Learning Centers	84.287	3400002 10	<u>525,708</u>	865,021
Title I - Part A Cluster:				
Title I - Grants to Local Educational Agencies	84.010	3100002 09	44,747	
Title I - Grants to Local Educational Agencies	84.010	3100002 10	549,724	
Title I - Grants to Local Educational Agencies	84.010	3100002 11	2,031,739	
Title I - Grants to Local Educational Agencies	84.010	3100202 10	27,722	
Title I - Grants to Local Educational Agencies	84.010	3100202 11	147,510	
Title I - Grants to Local Educational Agencies - Recovery Act	84.389	4100002 09	<u>107,153</u>	2,908,595
Career and Technical Education - Basic Grants to States	84.048	4621032 09	3,056	
Career and Technical Education - Basic Grants to States	84.048	4621032 10	13,148	
Career and Technical Education - Basic Grants to States	84.048	4621032 11	<u>90,797</u>	107,001
Improving Teacher Quality State Grant	84.367	3230002 09	1,432	
Improving Teacher Quality State Grant	84.367	3230002 10	380,231	
Improving Teacher Quality State Grant	84.367	3230002 11	<u>25,268</u>	406,931
Educational Technology State Grants Cluster:				
Education Technology State Grants - Recovery Act	84.386	4210002 09	11,079	
Education Technology State Grant	84.318	3210002 09	<u>24,964</u>	36,043
English Language Acquisition Grants	84.365	3300002 09	<u>12,740</u>	12,740
Safe and Drug-Free Schools -State Grants	84.186	3410002 09	<u>3,316</u>	3,316
Education for Homeless Children and Youth				
Education for Homeless Children and Youth - Recovery Act	84.387	4990002 09	335	
Education for Homeless Children and Youth	84.196	3990002 10	28,576	
Education for Homeless Children and Youth	84.196	3990002 11	<u>60,279</u>	89,190
Education Jobs Fund	84.410	EJOB00 10	<u>881,600</u>	881,600
Even Start Family Literacy	84.213	3160002 10	<u>33,921</u>	33,921
Advanced Placement Program	84.330	3930001 11	<u>13,719</u>	13,719
Special Education Cluster:				
Special Education - Preschool Grants - Recovery Act	84.392	4800002 09	11,851	
Special Education Grants to States - Recovery Act	84.391	4810002 09	47,059	
Special Education Grants to States	84.027	3810002 09	26,539	
Special Education Grants to States	84.027	3810002 10	115,124	
Special Education Grants to States	84.027	3810002 11	771,555	
Special Education Preschool Grants	84.173	3800002 10	778	
Special Education Preschool Grants	84.173	3800002 11	<u>59,631</u>	1,032,537
<b>Total U.S. Department of Education</b>			<u>7,522,617</u>	<u>7,522,617</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>CFDA NUMBER</b>	<b>PASS- THROUGH GRANTOR'S NUMBER</b>	<b>EXPENDITURES</b>	<b>PROGRAM/ CLUSTER TOTALS</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed through the Kentucky Department of Education</i>				
Child and Adult Care Food Program	10.558	7790021 11	\$ 1,982	
Child and Adult Care Food Program	10.558	7790021 12	9,413	
Child and Adult Care Food Program	10.558	7800016 11	178	
Child and Adult Care Food Program	10.558	7800016 12	858	\$ 12,431
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002 11	210,112	
National School Lunch Program	10.555	7750002 12	1,245,887	
School Breakfast Program	10.553	7760005 11	69,842	
School Breakfast Program	10.553	7760005 12	463,982	
Summer Food Service Program for Children	10.559	7690024 11	7,366	
Summer Food Service Program for Children	10.559	7740023 11	70,775	
<i>Passed through the Kentucky Department of Agriculture</i>				
National School Lunch Program - Food Donation	10.555	059-0201	115,611	2,183,575
<b>Total U.S. Department of Agriculture</b>			2,196,006	2,196,006
<b>U.S. DEPARTMENT OF DEFENSE</b>				
MJROTC	12.000	N/A	57,621	57,621
<b>Total U.S. Department of Defense</b>			57,621	57,621
<b>Total Expenditures of Federal Awards</b>			\$ 9,917,591	\$ 9,917,491

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Covington Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SUMMARY OF AUDITORS' RESULTS**

1. The Independent Auditors' Report expresses an unqualified opinion on the basic financial statements of the Covington Independent School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Covington Independent School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for Covington Independent School District expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any audit findings reportable under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs include: National School Lunch Program, CFDA #10.555; School Breakfast Program, CFDA #10.553; Summer Food Service Program for Children, CFDA #10.559; Education for Homeless Children and Youth – Recovery Act, CFDA #84.387; Education Technology State Grant, CFDA #84.318; Education Technology State Grants – Recovery Act, CFDA #84.386; Education for Homeless Children and Youth, CFDA #84.196; Mentoring Children of Prisoners, CFDA #93.616; Twenty- First Century Community Learning Centers, CFDA #84.287; Title I – Grants to Local Educational Agencies, CFDA #84.010; Title I- Grants to Local Educational Agencies - Recovery Act, CFDA #84.389; Education Jobs Fund, CFDA #84.410; Career and Technical Education – Basic Grants to States, CFDA #84.048; and State Energy Program - Recovery Act, CFDA 81.041.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Covington Independent School District does not qualify as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL  
FOR THE YEAR ENDED JUNE 30, 2012**

**BOARD MEMBERS**

VACANT

Term Expires - December 31, 2014

Glenda Huff

Term Expires - December 31, 2012

Krista Athey

Term Expires - December 31, 2012

Mike Fitzgerald

Term Expires - December 31, 2012

Jerry Avery

Term Expires – December 31, 2014

**ADMINISTRATIVE PERSONNEL**

Lynda Jackson

Superintendent of Schools  
and Secretary to the Board of Education

Annette Bemmer

Executive Director of Finance  
and Treasurer to the Board of Education

Janice Wilkerson

Executive Director of Student Services

Rick Ross

Executive Director of Learning Support

Bill Grein

Executive Director of Assessment/IB Programs

Eric Neff

Executive Director Personnel and Administration

Taryn Stewart

Director of Nutrition Services

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Members of the Board of Education  
Covington Independent School District  
25 East Seventh Street  
Covington, Kentucky 41011

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Covington Independent School District as of and for the year ended June 30, 2012, which collectively comprise the Covington Independent School District's basic financial statements and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV of the Independent Auditor's Contract - Instructions for Submission of the Audit Report.

**Internal Control Over Financial Reporting**

Management of Covington Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Covington Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Covington Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Covington Independent School District's internal control over financial reporting.


A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Covington Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties



Bertke, Sparks & Kremer, Inc.  
October 30, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Members of the Board of Education  
Covington Independent School District  
25 East Seventh Street  
Covington, Kentucky 41011

**Compliance**

We have audited Covington Independent School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Covington Independent School District's major federal programs for the year ended June 30, 2012. Covington Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Covington Independent School District's management. Our responsibility is to express an opinion on Covington Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Covington Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Covington Independent School District's compliance with those requirements.

In our opinion, Covington Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

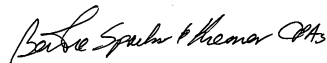
## **Internal Control Over Compliance**

Management of Covington Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Covington Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Covington Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.



Bertke, Sparks & Kremer, Inc.  
October 30, 2012

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

In planning and performing our audit of the financial statements of Covington Independent School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter does not affect our report dated October 30, 2012, on the financial statements of the Covington Independent School District.

**CURRENT YEAR RECOMMENDATIONS**

**CENTRAL OFFICE**

Any exception noted during testing appeared to be isolated incidents only.

**ACTIVITY FUNDS**

**Holmes High School**

Any exceptions noted during testing appeared to be isolated incidents only.

**Holmes Middle School**

Any exceptions noted during testing appeared to be isolated incidents only.

**Covington Independent Adult High School**

Any exceptions noted during testing appeared to be isolated incidents only.

**Sixth District Elementary**

Any exceptions noted during testing appeared to be isolated incidents only.

**Ninth District Elementary**

Any exceptions noted during testing appeared to be isolated incidents only.

**John G. Carlisle Elementary**

Any exceptions noted during testing appeared to be isolated incidents only.

**Latonia Elementary**

Any exceptions noted during testing appeared to be isolated incidents only.

**Glenn O. Swing Elementary**

Any exceptions noted during testing appeared to be isolated incidents only.

**James E. Biggs Early Childhood Education Center**

Any exceptions noted during testing appeared to be isolated incidents only.

**COVINGTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2012**

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**CENTRAL OFFICE**

NONE

**ACTIVITY FUNDS**

**Holmes High School**

NONE

**Holmes Middle School**

NONE

**Covington Independent Adult High School**

NONE

**Sixth District Elementary**

NONE

**Ninth District Elementary**

NONE

**John G. Carlisle Elementary**

NONE

**Latonia Elementary**

NONE

**Glenn O. Swing Elementary**

NONE

**James E. Biggs Early Childhood Education Center**

NONE